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Agenda item 5

# ADOPTION OF THE REPORT OF THE GROUP ON ITS ELEVENTH SESSION

Draft report

Addendum

Rapporteur: G. G. M. BAK (Netherlands)

## II. ACCOUNTING EDUCATION AND STRENGTHENING OF THE PROFESSION

### A. Review of curricula for accountants and auditors at the global level

1. At its 1st meeting, on 4 March 1993, the group took up the report of the Secretary-General on the global review of the state of accounting and auditing education and training (E/C.10/AC.3/1993/2). In introducing the report, a member of the Secretariat noted that the report gave a global view of the state of accounting education based on a statistical summary of the data contained in a questionnaire circulated to all member countries, as well as to leading academics and heads of professional associations.

2. The basic premise of the report was that education was necessary to prepare accountants to take up their role and meet their responsibilities. These were constantly changing and the profession was falling behind in producing individuals equipped to operate either in a modern economy or in a global economy. The study concentrated on education systems that prepared the highest level accountant or those with the independent auditor designation. The average profile of the accounting education system that emerged from the data was that of a technically oriented curriculum.

3. The representative of the European Economic Community (EEC) explained that in the Community there were specific requirements for statutory auditors. They had very strict educational requirements so that the public interest was protected. Those requirements were set out in the Eighth Directive of the European Economic Community. On the other hand, commercial accountants had many roles and the Community had not formulated the requirements for their education. Therefore, it was important to make a clearer distinction in the report between the education required for accountants and that for auditors.

4. The expert from Kenya stated that, ideally, there should not be a distinction between accountants and auditors. Competence and independence were required of both so that their education should not be different. The expert from the Sudan added that accountants and auditors should have the same level of education. Distinction would be made in accordance with training and specialization. The representative of EEC replied that he had not suggested that there were two different professions or that accountants did not need to be competent, rather he wanted to stress that auditors must fulfil certain requirements because they work in the public interest. Those requirements were different from those providing accounting services. This must be more clearly stated in the report.

5. The experts from Germany and Hungary observed that in their countries a distinction was made between the different levels of the professions, that is, between bookkeepers, accountants and statutory auditors. They recommended that a clear distinction be made. The expert from Gabon was of the opinion that the distinction between accountants and auditors should not be based on the level of training but rather on whether they had public or private responsibilities. However, the expert from France observed that commercial accountants or those working for firms should also be bound by the same ethical rules as auditors. The expert from India said that it was clear that the questionnaire had targeted statutory auditors or accountants at the highest level and that the discussion was not about bookkeepers. The Group should be talking about the education given to the highest level. The Chairman suggested that the discussion focus on accounting education in general, with special attention to auditors.

6. At its 2nd meeting, on 4 March 1993, the Group took up the report of the Secretary-General on responsibilities of the accounting profession and direction of accounting and auditing education (E/C.10/AC.3/1993/3). The expert from the United States of America noted that accountants and auditors were providers of important information for external and internal users. The way they were educated was critical to carrying out those responsibilities. The report distinguished between four stages in professional accounting development: the individual accounting practitioners, pre-profession, early profession and mature profession. Those four stages related to the stages of economic development and the role and responsibilities of the accountant. In his view, as economic development increased, accounting education must shift from a technical focus to a broader business knowledge.

7. The expert from the Sudan stated that the report contained a clear demarcation between the different levels of accountants by introducing the four stages of professional accounting development. It was also obvious that there was a relationship between the state of economic development and the work of

the accountant. At each stage standards were needed to guide the work. In some countries there were conflicting demands for accounting information. In his view, there should be uniform accounting standards. While one could make a distinction between the different stages of professional development and the different education needed, a distinction should not be made between the education obtained at each level in the developing countries compared to the developed countries.

8. The Chairman suggested that two types of standards needed to be formulated. The first standard would be a benchmark for professional qualifying examinations. The second standard would be for licensing.

9. The representative of EEC responded that EEC had tried to deal with the two problems of qualification and licensing. Although the curricula had been harmonized, at least for statutory auditors, mutual recognition of qualifications still depended on the auditor passing a test of knowledge of the local law of the country in which he or she wanted to be licensed.

10. The representative of the Fédération internationale des experts-comptables francophones (FIDEF) stated that since there was one accounting profession there should be one accounting requirement and it should be dealt with in a global way. Everyone should have access to the profession and related education. The development of a global requirement would help the profession in the developing countries. The expert from Poland explained that, while the situation was very different in her country, it would be much easier if there were international qualifications. While there were many accountants in her country, they all needed to be retrained in order to operate in a market economy. It would be much easier to retrain them if there was a minimum curriculum that the country could follow. It would be much easier to convince the authorities of the appropriateness of the retraining being proposed.

11. The expert from Germany agreed that it was necessary to distinguish between qualification and licensing. Possibly, the United Nations could create an institute that could deal with the questions of qualification and develop a system that would be of benefit to national institutes.

12. The expert from the Netherlands was of the view that the "expectations gap" had nothing to do with education. The expectations gap was a result of other problems facing the profession and they could not be solved by education. However, what might be lacking was continuing education. If one looked into the cases where a firm had been sued, often the people responsible for the audit had been educated 20 years ago. The problem was how to keep them up to date since those who were successful in practice did not have time to keep abreast of all the changes.

13. The expert from Germany agreed that accountants could not fulfil all public expectations or guarantee the continued existence of enterprises. The expectations gap could not be closed by education; the public must realize that the accountant has certain limitations. For example, statutory audits only related to past financial statements, not to future ones. Secondly, there was no audit of direct management decisions. If the profession had to pay the claims mentioned in the report, that could be the end of the profession. The

savings and loan crisis was not caused by auditors but by economic conditions; also, the supervision could be questioned. Therefore, he could not agree with paragraph 31 (a) of the report, which suggested that auditors assume more responsibility for the detection and reporting of fraud and illegal acts. He indicated that the problem was a balancing between public expectations and a realization of the limitations of the profession. He urged a limitation on liability.

14. The expert from the United States of America stated that the recommendations in paragraph 31 were from the Treadway Commission report and that the obligation to assume more responsibility for fraud and illegal acts might soon be imposed by law in her country. The expert from the Sudan added that there was a tendency on the part of users of financial statements to think that auditors could do all things. That issue should be taken up by the International Federation of Accountants so that practitioners could be protected.

15. The expert from India suggested that the question of responsibilities of auditors could form a topic for further discussion. Such questions as where do auditors' responsibilities start and end and where do parliaments or public accounting committees come in could be included. Regarding paragraph 31, he was of the opinion that audit effectiveness should be improved. He asked if auditors were equipped at all to find fraud or understand what was really going on since they seemed to be immersed in the routine aspects of financial statements. For example, how well could they get to the bottom of the vast changes that occur during capital restructuring? The issue that should be discussed was how could they be prepared to deal with complex problems - especially after they had completed their education. The Chairman agreed that it would be worthwhile to set up a one-day forum to discuss the responsibilities of auditors.

16. Considering that paragraph 31 reflected just the belief of many members of the public and financial statement users, the Group felt that another paragraph should be added, which would contain the profession's view that it was being held more responsible for detecting adverse developments than it should be.

17. The representative of the European Economic Community recommended the following amendments in both reports under discussion:

(a) That a clear distinction be made between the education of accountants and auditors;

(b) That paragraph 58 of document E/C.10/AC.3/1993/2 be amended since the question of salary was not a typical problem for the accounting profession; that paragraph 59 mention that the International Federation of Accountants (IFA) should be invited to participate in the work described; in fact, IFA could do many of the things mentioned in paragraph 59 such as developing international qualification and teaching materials as well as a multilingual glossary;

(c) That improvements also be made in "continuing" education which might remedy some of the problems being encountered at the stage of the mature profession.

18. The Chairman closed the discussion by saying that it was the opinion of the Group that, while the documents were excellent, they needed some amendments. It was clear that education was the basic foundation of the development of the profession and that education needed to be improved. It was useful to distinguish between qualifications and licensing. The Chairman noted that global educational standards and continuing education standards needed to be formulated.

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